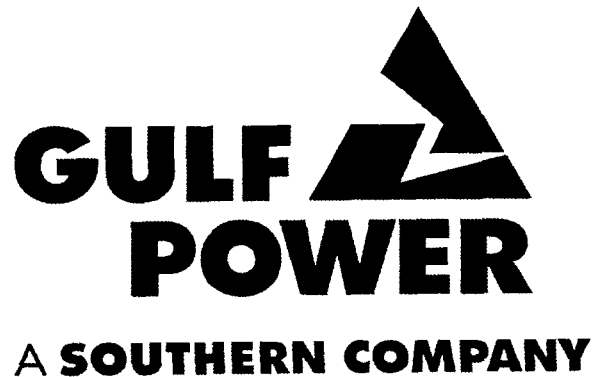


GULF POWER COMPANY

**Before the Florida Public Service
Commission
Prepared Direct Testimony
H. R. Ball
Docket No. 050001-EI
Date of Filing: September 16, 2005**



DOCUMENT NUMBER-DATE

08744 SEP 16 05

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1 GULF POWER COMPANY

2 Before the Florida Public Service Commission

3 Prepared Direct Testimony and Exhibit of

4 H. R. Ball

5 Docket No. 050001-EI

6 Date of Filing: September 16, 2005

7 Q. Please state your name and business address.

8 A. My name is H. R. Ball. My business address is One Energy Place,
9 Pensacola, Florida 32520-0335. I am the Fuel Manager for Gulf Power
10 Company.

11
12 Q. Please briefly describe your educational background and business
13 experience.

14 A. I graduated from the University of Southern Mississippi in Hattiesburg,
15 Mississippi in 1978 with a Bachelor of Science Degree in Chemistry and
16 graduated from the University of Southern Mississippi in Long Beach,
17 Mississippi in 1988 with a Masters of Business Administration. My
18 employment with the Southern Company began in 1978 at Mississippi
19 Power's (MPC) Plant Daniel as a Plant Chemist. In 1982, I transferred to
20 MPC's Fuel Department as a Fuel Business Analyst. I was promoted in
21 1987 to Supervisor of Chemistry and Regulatory Compliance at Plant
22 Daniel. In 1988, I assumed the role of Supervisor of Coal Logistics with
23 Southern Company Fuel Services in Birmingham, Alabama. My
24 responsibilities included administering coal supply and transportation
25 agreements and managing the coal inventory program for the Southern

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1 Electric System. I transferred to my current position as Fuel Manager for
2 Gulf Power Company in 2003.

3
4 Q. What are your duties as Fuel Manager for Gulf Power Company?

5 A. My responsibilities include the management of the Company's fuel
6 procurement, inventory, transportation, budgeting, contract administration,
7 and quality assurance programs to ensure that the generating plants
8 operated by Gulf Power are supplied with an adequate quantity of fuel in a
9 timely manner and at the lowest practical cost. I also have responsibility
10 for the administration of Gulf's Intercompany Interchange Contract (IIC).

11
12 Q. What is the purpose of your testimony in this docket?

13 A. The purpose of my testimony is to support Gulf Power Company's
14 projection of fuel expenses, net power transaction expense, and
15 purchased power capacity costs for the period January 1, 2006 through
16 December 31, 2006. It is also my intent to be available to answer
17 questions that may arise among the parties to this docket concerning Gulf
18 Power Company's fuel and net power transaction expenses and
19 purchased power capacity costs.

20
21 Q. Have you prepared exhibits that contain information to which you will refer
22 in your testimony?

23 A. Yes, I have prepared an exhibit that compares actual and projected fuel
24 cost of net generation for the past ten years. The purpose of this exhibit
25 is to indicate the accuracy of Gulf's short term fuel expense projections.

1 Counsel: We ask that Mr. Ball's Exhibit , consisting of one schedule,
2 be marked as Exhibit No. _____ (HRB-1).

3
4 Q. Has Gulf Power Company made any significant changes to its methods
5 for projecting fuel expenses, net power transaction expense, and
6 purchased power capacity costs for this period?

7 A. No. Gulf has been consistent in how it projects annual fuel expenses, net
8 power transactions, and capacity costs.

9
10 Q. What is Gulf's projected recoverable total fuel and net power transactions
11 cost for the January, 2006 – December, 2006 recovery period?

12 A. Gulf's projected total fuel and net power transaction cost for the period is
13 \$347,252,229. This projected amount is captured in the exhibit to
14 Witness Davis's testimony, Schedule E-1, Line 21.

15
16 Q. How does the total projected fuel and net power transactions cost for the
17 2006 period compare to the projected fuel cost for the same period in
18 2005?

19 A. The total updated cost of fuel and net power transactions for 2005,
20 reflected on revised Schedule E-1B of Witness Davis's testimony, is
21 projected to be \$323,077,548. The projected cost of fuel and net power
22 transactions for 2006 represents an increase of \$24,174,681 or 7.48%.
23 On a fuel cost per KWH basis, the 2005 projected cost is 2.6897 cents per
24 KWH and the 2006 projected fuel cost is 2.7859 cents per KWH. This is a
25 increase of 0.0962 cents per KWH or 3.58%.

1 Q. What is Gulf's projected recoverable fuel cost of net generation for the
2 period?

3 A. The projected total cost of fuel to meet system net generation needs in
4 2006 is \$523,063,714. The projection of fuel cost of system net
5 generation for 2006 is captured in the exhibit to Witness Davis's
6 testimony, Schedule E-1, Line 1.

7
8 Q. How does the total projected fuel cost of net generation for the 2006
9 period compare to the projected fuel cost for the same period in 2005?

10 A. The total updated cost of fuel to meet 2005 system net generation needs,
11 reflected on revised Schedule E-1B of Witness Davis's testimony, is
12 projected to be \$418,250,242. The projected total cost of fuel to meet
13 system net generation needs in 2006 represents an increase of
14 \$104,813,472 or 25.06%. Total system net generation in 2006 is
15 projected to be 17,810,860 MWH which is 2,520,105 MWH or 16.48%
16 higher than is currently projected for 2005. On a fuel cost per KWH basis,
17 the 2005 projected cost is 2.7353 cents per KWH and the 2006 projected
18 fuel cost is 2.9368 cents per KWH. This is an increase of 0.2015 cents
19 per KWH or 7.37%. This higher projected total fuel expense and average
20 per unit fuel cost reflects a continued trend of increases in the forecasted
21 price of coal and natural gas to fuel Gulf's generating units.

22
23 Q. Does the 2006 projection of fuel cost of net generation reflect any major
24 changes in Gulf's fuel procurement program for this period?

25 A. No. Gulf will receive 1.9 million tons of coal under an existing coal supply

1 agreement with Peabody Coal Sales, 0.6 million tons of coal under an
2 existing coal supply agreement with Peabody COALTRADE, Inc., and 1.2
3 million tons of coal under an existing coal supply agreement with
4 Interocean Coal Sales, LDC for Plants Crist and Smith. Gulf has a full
5 requirements coal supply agreement for Plant Scholz with ICG Coal
6 Sales. Gulf's remaining coal requirements, if any, will be purchased in the
7 market through the Request for Proposal (RFP) process that has been
8 used for many years by Southern Company Services - Fuel Services as
9 agent for Gulf. Coal will be delivered under existing coal transportation
10 contracts. Natural gas requirements will be purchased from various
11 suppliers using firm quantity agreements with market pricing for base
12 needs and on the daily spot market when necessary. Natural gas
13 transportation will be secured using a combination of firm and spot
14 transportation agreements.

15
16 Q. What fuel price hedging programs will be utilized by Gulf to protect the
17 customer from fuel price spikes?

18 A. Natural gas prices will be hedged financially using instruments that
19 conform to Gulf's established guidelines for hedging activity. Coal supply
20 and transportation prices will be hedged physically using term agreements
21 with either fixed pricing or term pricing with escalation terms tied to
22 various published market price indexes.

23
24 Q. Has Gulf adequately mitigated the price risk of natural gas and purchased
25 power for 2004 through 2006?

1 A. Gulf had adequate gas hedges in place for 2004 to mitigate price risk and
2 the net result was a reduction in recoverable fuel cost of \$6,652,157.
3 Gulf currently has gas and purchased power hedges in place for 2005 and
4 2006 and continues to look for opportunities to enter into financial hedges
5 that we believe will be of benefit to the customer. Through July of 2005
6 financial hedges have reduced recoverable fuel cost by \$2,504,822.

7
8 Q. Should recent changes in the market price for natural gas impact the
9 percentage of Gulf's natural gas requirements that Gulf plans to hedge?

10 A. Gulf has a disciplined process in place to evaluate the benefits of gas
11 hedging transactions prior to entering into financial hedges that considers
12 both market price and anticipated burn. The focus of this process is to
13 mitigate the price volatility and risk of natural gas purchases for the
14 customer and not to attempt to speculate in the natural gas market. Gulf's
15 current strategy is to have gas hedges in place that do not exceed the
16 anticipated gas burn at its Smith Unit 3 combined cycle plant. Gas burn
17 requirements change as the market price of natural gas changes due to
18 the economic dispatch process utilized by the Southern System
19 generation pool in accordance with the Intercompany Interchange
20 Contract. Typically, as gas prices increase, anticipated gas burn
21 decreases and the percentage of gas requirements that are currently
22 hedged financially increases. Gulf will continue to evaluate the
23 performance of this hedging strategy and will make adjustments within the
24 guidelines of the currently approved hedging program when needed.

25

1 Q. What actions does Gulf take to procure natural gas and natural gas
2 transportation for its units at competitive prices for both long term and
3 short term deliveries?

4 A. Gulf procures natural gas using both long and short term agreements for
5 supply at market based prices. Gulf secures gas transportation for non-
6 peaking units using long term agreements for firm transportation capacity
7 and for peaking units using interruptible transportation, released seasonal
8 firm transportation, or delivered natural gas agreements. Details of Gulf's
9 natural gas procurement strategy are included in the "Risk Management
10 Plan for Fuel Procurement" on file in this docket.

11

12 Q. What is Gulf's projected recoverable fuel cost of power sold for the
13 period?

14 A. Gulf's projected recoverable fuel cost of power sold is (\$201,426,000).
15 This projected amount is captured in the exhibit to Witness Davis's
16 testimony, Schedule E-1, Line 19.

17

18 Q. How does the total projected recoverable fuel cost of power sold for the
19 2006 period compare to the projected recoverable fuel cost of power sold
20 for the same period in 2005?

21 A. The total projected recoverable fuel cost of power sold, reflected on
22 revised Schedule E-1B of Witness Davis's testimony, is projected to be
23 (\$130,827,699). The projected recoverable fuel cost of power sold in
24 2006 represents an increased credit of (\$70,598,301) or 53.96%. Total
25 power sold in 2006 is projected to be 5,878,653 MWH which is 1,564,212

1 MWH or 36.26% higher than is currently projected for 2005. On a fuel
2 cost per KWH basis, the 2005 projected cost is 3.0323 cents per KWH
3 and the 2006 projected fuel cost is 3.4264 cents per KWH. This is an
4 increase of 0.3941 cents per KWH or 13.00%. This higher total credit to
5 fuel expense from power sales is attributed to higher replacement fuel
6 costs as a result of the forecasted higher market prices for coal and
7 natural gas increasing the fuel reimbursement rate (\$/MWH) for power
8 sales.

9
10 Q. What is Gulf's projected purchased power recoverable cost for energy
11 purchased for the period?

12 A. Gulf's projected recoverable cost for energy purchases is \$ 23,561,000.
13 This projected amount is captured in the exhibit to Witness Davis's
14 testimony, Schedule E-1, Line 13.

15
16 Q. How does the total projected purchased power cost for the 2006 period
17 compare to the projected purchased power cost for the same period in
18 2005?

19 A. The total updated cost of purchased power to meet 2005 system needs,
20 reflected on revised Schedule E-1B of Witness Davis's testimony, is
21 projected to be \$36,372,784. The projected cost of purchased power to
22 meet system needs in 2006 represents a decrease of \$12,811,784 or
23 35.22%. Total purchased power in 2006 is projected to be 464,921 MWH
24 which is 500,488 MWH or 51.84% lower than is currently projected for
25 2005. On a fuel cost per KWH basis, the 2005 projected cost is 3.7676

1 cents per KWH and the 2006 projected fuel cost is 5.0677 cents per
2 KWH. This is an increase of 1.3001 cents per KWH or 34.51%. This
3 higher projected purchased power expense and average per unit cost
4 reflect a continued trend of increases in replacement fuel costs as a result
5 of the forecasted increases in the market price of coal and natural gas.
6

7 Q. What is Gulf's projected recoverable capacity cost for the period?

8 A. The total recoverable capacity cost for the period is \$29,458,820. This
9 amount is captured in Witness Davis's testimony on Line 3 of Schedule
10 CCE-1. Schedule CCE-4 of Witness Davis' testimony lists the long term
11 power contracts that are included for capacity cost recovery, their
12 associated capacity amount in megawatts, and the resulting capacity
13 dollar amounts. Also included on Schedule CCE-4 is a total of the
14 revenues produced by several market based service agreements between
15 the Southern Electric System operating companies and entities outside
16 the system that are included in Gulf's 2006 projection. The total capacity
17 cost shown on Schedule CCE-4 is included on Line 1 of Schedule CCE-1
18

19 Q. What are the other projected revenues that Gulf has included in its
20 capacity cost recovery clause for the period?

21 A. Gulf has included an estimate of transmission revenues in the amount of
22 \$384,000 in its capacity cost recovery projection. This amount is captured
23 in Witness Davis's testimony, on Line 2 of Schedule CCE-1.
24

25 Q. How does the total projected net capacity cost for the 2006 period

1 compare to the projected net capacity cost for the same period in 2005?
2 A. Gulf's 2006 Projected Jurisdictional Capacity Payments(Schedule CCE-1,
3 line 5) are projected to be \$28,471,572 or 28% higher than the current
4 estimate of \$22,252,800 for 2005 that was filed in testimony under this
5 docket on August 12, 2005. This increase is a result of Gulf's increased
6 need for capacity reserves under the provisions of the Intercompany
7 Interchange Contract. Gulf projects increases in customer load for the
8 2006 period over the prior year and will retire Plant Crist Units 2 and 3 by
9 May 1, 2006 which will reduce available Gulf capacity. The combination
10 of these events will require the purchase of more system capacity
11 reserves in order to provide the level of reserve margin needed to reliably
12 serve its customer load requirements.

13
14 Q. Mr. Ball, does this complete your testimony?

15 A. Yes, it does.
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25

AFFIDAVIT

STATE OF FLORIDA)
)
COUNTY OF ESCAMBIA)

Docket No. 050001-EI

Before me the undersigned authority, personally appeared H. R. Ball, who being first duly sworn, deposes, and says that he is the Fuel Manager at Gulf Power Company, a Maine corporation, and that the foregoing is true and correct to the best of his knowledge, information, and belief. He is personally known to me.

H. R. Ball
Fuel Manager

Sworn to and subscribed before me this 16th day of September, 2005

Notary Public, State of Florida at Large

Commission Number:

Commission Expires:

**GULF POWER COMPANY
PROJECTED VS. ACTUAL FUEL COST OF SYSTEM NET GENERATION**

Cents / KWH Fuel Cost ⁽¹⁾

<u>Period Ending</u>	<u>Projected</u>	<u>Actual</u>	<u>% Difference</u>
March 1996	1.9795	2.0743	4.79
September 1996	2.0405	1.9639	(3.75)
March 1997	1.9282	2.0332	5.45
September 1997	1.9434	1.9431	(0.02)
March 1998	1.8734	1.8647	(0.46)
September 1998	1.5916	1.6361	2.80
December 1999	1.5291	1.5696	2.65
December 2000	1.6048	1.6460	2.57
December 2001	1.5782	1.7218	9.10
December 2002	2.0241	2.0505	1.30
December 2003	1.9639	2.1133	7.61
December 2004	2.0936	2.3270	11.15
December 2005	2.5014 ⁽²⁾		
December 2006	2.9368 ⁽²⁾		

(1) Line No. 1 from FPSC Schedule A-1, Period To Date

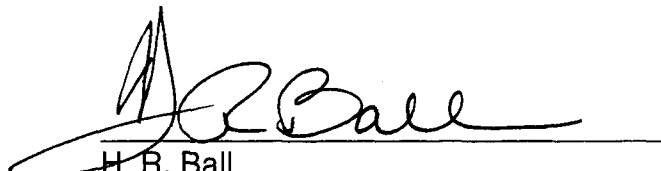
(2) Line No. 1 from FPSC Schedule E-1

AFFIDAVIT

STATE OF FLORIDA)
)
COUNTY OF ESCAMBIA)

Docket No. 050001-EI

Before me the undersigned authority, personally appeared H. R. Ball, who being first duly sworn, deposes, and says that he is the Fuel Manager at Gulf Power Company, a Maine corporation, and that the foregoing is true and correct to the best of his knowledge, information, and belief. He is personally known to me.



H. R. Ball
Fuel Manager

Sworn to and subscribed before me this 16th day of September, 2005



Notary Public, State of Florida at Large

Commission Number: *DD 284322*

Commission Expires: *25 Jan 2008*

